

**The Internal Revenue Service Certifies Its  
Readiness to Process Individual Income Tax  
Returns in 2002**

**March 2002**

**Reference Number: 2002-40-080**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

March 29, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION  
DEPUTY COMMISSIONER FOR MODERNIZATION &  
CHIEF INFORMATION OFFICER

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Certifies Its  
Readiness to Process Individual Income Tax Returns in 2002  
(Audit # 200240007)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) had addressed significant issues expected to affect the processing of Wage and Investment (W&I) taxpayers' returns during the 2002 Filing Season. The audit focused on the W&I Submission Processing (SP) organization's filing season readiness actions to implement tax law changes, revise its Internal Revenue Manual (IRM), provide appropriate training, and recruit sufficient staff to process the projected paper volume of Individual Income Tax returns for the 2002 Filing Season.

Our results showed that the IRS appropriately addressed and certified the accomplishment of significant readiness issues for the effective processing of 2001 Individual Income Tax returns during the 2002 Filing Season and has begun implementing recommendations made in two prior Treasury Inspector General for Tax Administration reports.<sup>1</sup> More specifically, the W&I SP organization implemented tax law changes stemming from the Economic Growth and Tax Relief Reconciliation Act of 2001<sup>2</sup> and the Taxpayer Relief Act of 1997.<sup>3</sup> This included modifying its computer

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<sup>1</sup> *The Internal Revenue Service's Planning Process Needs Improving to Fully Resolve All Issues Affecting Tax Return Processing Activities* (Reference Number 2000-40-054, dated March 2000) and *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season* (Reference Number 2001-40-192, dated September 2001).

<sup>2</sup> Pub. L. No. 107-16.

systems to effectively process individual returns, revising appropriate sections of the IRM, updating its training materials for new tax law changes, and preparing training schedules for its employees. The W&I SP organization also completed the required analysis to ensure that sufficient staff is available to process the projected paper volume of 2001 Individual Income Tax returns during the 2002 Filing Season.

Management's Response: The IRS was not required to respond to this report because it did not include any recommendations. However, IRS management was provided an opportunity, if desired, to provide any comments within 30 days of the issuance of the draft report. IRS management informed us that they did not intend to respond to the report. In that message, they indicated that our report was very representative of their readiness and extended their thanks for our efforts on this review.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-7085.

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<sup>3</sup> Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of 5 U.S.C., 19 U.S.C., 26 U.S.C., 29 U.S.C., 31 U.S.C., 42 U.S.C., and 46 U.S.C. app.).

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### Background

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In 2002, the Internal Revenue Service (IRS) expects to process a total of 88 million paper Individual Income Tax returns through 10 submission processing centers<sup>1</sup> (SPC) located across the nation. Most of these returns will be received and processed during the first half of the calendar year, which the IRS commonly refers to as the “Filing Season.”

Annually, the IRS faces many challenges during the last 6 months of each calendar year in order to effectively prepare for the upcoming filing season. These challenges generally include preparing readiness action plans and certifying readiness, updating IRS computer systems, revising the Internal Revenue Manual<sup>2</sup> (IRM) for technical and procedural changes, providing timely employee training, and addressing specific staffing needs at the various SPC locations.

For example, in preparation for this year’s filing season, the IRS was required to modify its computer systems for changes resulting from new tax laws. These programming changes are necessary to ensure that Individual Income Tax returns will be processed in accordance with the Economic Growth and Tax Relief Reconciliation Act of 2001<sup>3</sup> (EGTRRA) and the Tax Relief Act of 1997<sup>4</sup> (TRA 97). See Appendix V for an overview of the tax law changes that affect individual income tax returns for Tax Year (TY) 2001.

Also, another very unexpected but important challenge resulted from the September 11, 2001, terrorist attacks on the World Trade Center and Pentagon and the subsequent anthrax attacks perpetrated through the mail. In response to these events, IRS executives quickly implemented actions to increase security and safety precautions during the filing

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<sup>1</sup> The 10 SPCs are Andover, Atlanta, Austin, Brookhaven, Cincinnati, Fresno, Kansas City, Memphis, Ogden, and Philadelphia.

<sup>2</sup> The IRM contains the detailed policies and procedures for all IRS operations and functions.

<sup>3</sup> Pub. L. No. 107-16.

<sup>4</sup> Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of 5 U.S.C., 19 U.S.C., 26 U.S.C., 29 U.S.C., 31 U.S.C., 42 U.S.C., and 46 U.S.C. app.).

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season. These precautions included strengthening readiness preparations to ensure that the IRS is adequately prepared for the possibility of a biological attack at one or more of its SPCs. See Appendix VII for an overview of the precautions implemented.

The Treasury Inspector General for Tax Administration (TIGTA) conducted this review from August 2001 through January 2002. The audit was performed in accordance with *Government Auditing Standards*. The audit team interviewed IRS Wage and Investment (W&I) Division and IRS Information Technology Services (ITS) officials and reviewed data from the W&I Submission Processing (SP) Headquarters Office and from the Andover, Atlanta, Austin, Brookhaven, Fresno, Kansas City, Memphis, and Philadelphia SPCs.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Our audit scope did not include coverage of the Rate Reduction Credit for 2001<sup>5</sup> because it is being separately reviewed in other TIGTA audits.<sup>6</sup> Major contributors to the report are listed in Appendix II.

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The W&I SP organization took appropriate steps to address significant readiness issues for the 2002 Filing Season. On December 7, 2001, the W&I SP organization completed its 2002 readiness reviews at the IRS' eight SPCs designated to process Individual Income Tax returns.<sup>7</sup> During the same month, each W&I SPC Director submitted a certification of readiness to the W&I SP Headquarters Office that showed most items on their action plan had been properly addressed, with the remaining few items being closely monitored to ensure completion.

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<sup>5</sup> Internal Revenue Code of 1986, 26 U.S.C. §6428.

<sup>6</sup> *While Most Taxpayers Received Accurate and Timely Notification of Their Advance Refunds, Millions Did Not* (Reference Number 2002-40-016, dated October 2001); *Review of the Advance Refunds Enacted by H.R. 1836* (Audit # 200140056); *Review of the Advance Refunds Enacted by H.R. 1836 – Phase III* (Audit # 200140057).

<sup>7</sup> The eight W&I SPCs are Andover, Atlanta, Austin, Brookhaven, Fresno, Kansas City, Memphis, and Philadelphia. (Note: The two Small Business/Self-Employed SPCs are Cincinnati and Ogden.)

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We also determined that the IRS had addressed several prior TIGTA recommendations in a continued effort to ensure and improve filing season readiness.

More specifically, the W&I SP organization implemented tax law changes stemming from the EGTRRA and the TRA 97. This included modifying its computer systems to effectively process individual returns, revising appropriate sections of the IRM, updating its training materials for new tax law changes, and preparing training schedules for its employees. The W&I SP organization also completed the required analysis to ensure that sufficient staff is available to process the projected paper volume of 2001 Individual Income Tax returns during the 2002 Filing Season.

### **Preparing the W&I SP readiness action plan and certifying the processing centers' readiness for 2002**

Each IRS organizational unit involved in the filing season was required to submit to the IRS' Filing Season Executive Steering Committee a detailed filing season readiness action plan and filing season readiness certification.

The W&I SP filing season readiness action plan contained 16 major topics such as legislation, IRMs, training, etc., and 91 assorted action items. As of December 2001, most of the action items were completed, ongoing,<sup>8</sup> or had anticipated completion dates after December 2001. We discussed the status of the action items with a W&I SP official, who was confident that the outstanding action items would be completed. In addition, our analysis of the W&I SP organization's reports of their readiness reviews at the eight SPCs and our review of the W&I SP Directors' certifications showed that most readiness action items had been addressed and that the outstanding action items would be monitored to ensure completion.

The Executive Steering Committee also played an important oversight role in the IRS' filing season readiness process. This Committee held periodic meetings with all IRS organizations involved with filing season readiness in order

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<sup>8</sup> Ongoing action items are performed throughout the filing season, for example monitoring reports, conducting meetings, etc.

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to monitor and discuss the status of their readiness action items. In addition, the Committee's co-chairs briefed IRS executives on the Committee's progress and status of critical readiness issues. See Appendix IV for an overview of the IRS' Filing Season Readiness Executive Steering Committee activities.

The Executive Steering Committee prepared a comprehensive action plan that identified 121 major items that the IRS organizational units would need to address to be ready for the 2002 Filing Season. Our analysis of the action plan identified five outstanding items as of December 2001. However, we concluded that none of these five items posed a significant risk to the successful processing of W&I taxpayers' returns in 2002.

Our analysis showed that three of the five items pertained to the incomplete testing of computer programming changes. See the next section for more information. Another item, which involved the issuance of information on electronic filing to electronic service providers, was subsequently completed in January 2002. And the last item, related to the ongoing negotiations between the IRS and the National Treasury Employees Union, was expected to be finished by January 31, 2002.<sup>9</sup>

### **Updating IRS computer processing systems for tax law changes affecting 2001 Individual Income Tax returns**

The IRS' readiness process showed that the W&I SP organization had properly initiated requests to the ITS function to update the programs of its computer systems for tax law changes from the EGTRRA and the TRA 97. Although the ITS function accomplished much of the required programming, we determined that not all program testing could be completed by January 2002. However, ITS contingency options appeared adequate to ensure completion of program testing or to address any potential setback that might occur.

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<sup>9</sup> Since we concluded our audit tests on January 22, 2002, we did not determine if the outstanding action plan items were eventually completed.



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We learned that these testing delays were due, in part, to some ITS resources being diverted to address security-related concerns caused by the September 11 terrorist attack. ITS options to help reduce the risks posed by not timely completing necessary testing included pulling ITS resources from other projects, scheduling employee overtime, conducting daily status meetings, and continuing to test during actual filing season processing.

We identified 5 Requests for Information Services<sup>10</sup> (RIS) and 4 amendments to those RISs that the W&I SP organization submitted to the ITS function for programming changes to computer systems that process individual returns. The programming changes were needed as a result of tax law changes that affect Individual Income Tax returns for Tax Year 2001. We discussed the status of these RISs and amendments with W&I SP and ITS personnel and determined that three would be completed and timely tested in December 2001, with the remaining six scheduled to be finished in January 2002.<sup>11</sup>

### **Revising appropriate sections of the IRM and providing relevant employee training for the 2002 Filing Season**

The W&I SP organization timely revised all affected IRMs and related training manuals. Training schedules for seasoned and newly hired employees had also been developed prior to the beginning of the 2002 Filing Season.

We determined that 66 sections of the IRM required revision and that all revised sections had been properly subjected to the IRS' review and clearance process and sent to the SPCs. Training coordinators at each SPC are responsible for ensuring that employees are aware of the issues and understand the changes addressed in the revisions.

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<sup>10</sup> Source: FS 2002 Universe - All Statuses (12/06/2001). We did not validate the accuracy of the report.

<sup>11</sup> Since we concluded our audit tests on January 22, 2002, we did not determine if the RISs and computer program tests were eventually completed.

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### **Addressing staffing needs to ensure sufficient resources are in place for the 2002 Filing Season**

The W&I SP organization effectively considered the projected paper volume of 2001 Individual Income Tax returns and other important variables to realistically calculate the staffing needs necessary for the processing of W&I tax returns at each SPC in 2002. The W&I SP Headquarters Office accomplished this complex task by providing pro-forma schedules designed to assist and guide each SPC through the steps required to produce a realistic calculation. See Appendix VI for additional information regarding this process.

Although evaluation of the recruitment of new employees was beyond the scope of this review, we determined that the IRS regularly monitors and addresses staffing needs throughout the filing season. Close coordination between the W&I SP Headquarters Office and the SPCs is required to ensure that sufficient resources are in place when needed.

### **Implementing prior TIGTA recommendations**

The IRS has begun taking steps to implement the audit recommendations made in two prior TIGTA reports.<sup>12</sup> The TIGTA recommended in a March 2000 report that the IRS develop comprehensive written guidelines to effectively address four specific elements in its readiness planning process. The four elements were (1) identify the action item criteria, (2) define the detail required, (3) document action taken, and (4) emphasize early resolution of staffing items. In response, the IRS has developed a formal charter for the Filing Season Readiness Executive Steering Committee that adequately addresses these elements and defines the roles and responsibilities of its members. See Appendix IV for more information.

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<sup>12</sup> *The Internal Revenue Service's Planning Process Needs Improving to Fully Resolve All Issues Affecting Tax Return Processing Activities* (Reference Number 2000-40-054, dated March 2000) and *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season* (Reference Number 2001-40-192, dated September 2001).

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In a subsequent report issued in September 2001, the TIGTA made three additional recommendations regarding the IRS' filing season. They were (1) ensure comprehensive plans are developed for implementing tax law changes, (2) use timely analysis of taxpayer filing patterns to determine that tax returns are filed in the correct SPCs, and (3) enhance contingency plans to ensure timely reaction to unanticipated changes. However, since the IRS' implementation has only recently begun, we plan to complete our assessment of its actions as follow-up items during our scheduled 2002 Filing Season review.

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**Appendix I**

**Detailed Objective, Scope, and Methodology**

The overall audit objective was to determine whether the Internal Revenue Service (IRS) had addressed significant issues expected to affect the processing of Wage and Investment (W&I) taxpayers' returns during the 2002 Filing Season.

We performed the following audit tests to accomplish the overall audit objective:

- I. To determine if the IRS had taken appropriate steps to address significant readiness issues that could affect the processing of W&I taxpayers' returns during the 2002 Filing Season, we:
  - A. Reviewed the minutes of all 15 Filing Season Readiness (FSR) Executive Steering Committee (ESC) meetings held between February and December 2001 and teleconferenced into 7 FSR ESC meetings held between September and December 2001 to identify significant readiness issues and to assess their status.
  - B. Monitored the statuses and updates of action plan items on the *FSR ESC 2002 Filing Season Readiness Action Plan* between August and December 2001 for delays in completion. The primary action plan sections that we monitored were: *Overall Filing Season Readiness*, *Submission Processing (SP) – W&I*, *Information Technology Services*, *IRM Roles & Responsibilities – SP W&I*, and *Training Strategy – SP W&I*.
  - C. Monitored the statuses and updates of action plan items on the W&I SP organization's *2002 Submission Processing Filing Season Readiness Action Plan* between August and December 2001 for delays in completion. We also teleconferenced into 4 of 7 W&I SP action plan meetings between August and December 2001.
  - D. Met with a W&I SP official to discuss the statuses of action items on the *2002 Submission Processing Filing Season Readiness Action Plan* dated December 13, 2001. We also inquired if the official had any concerns regarding the completion of the action plan items.
  - E. Reviewed the W&I SP organization's feedback on the 2001 Filing Season.
  - F. Reviewed W&I SP templates for the 2002 FSR package and reviewed the completed 2002 FSR packages for Receipt and Control, Document Perfection, Data Conversion, Input Correction, and Planning & Analysis that were prepared by the Atlanta, Austin, Fresno, and Kansas City Submission Processing Centers (SPC).

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- G. Reviewed the W&I SP organization's on-site teams' reports of their visits to the eight W&I SPCs. The purpose of the visits was to assess the SPCs' readiness for the 2002 Filing Season.
  - H. Reviewed the eight W&I SP Directors' readiness certifications for the 2002 Filing Season.
- II. To determine if the IRS had taken appropriate steps to implement tax legislation that could affect the processing of W&I taxpayers' returns during the 2002 Filing Season, we:
- A. Identified tax law changes that affect Individual Income Tax returns for Tax Year 2001. For example, we:
    - 1. Reviewed the Economic Growth and Tax Relief Reconciliation Act of 2001,<sup>1</sup> the Taxpayer Relief Act of 1997,<sup>2</sup> and the IRS' Legislation Implementation Tracking System for new tax laws that affect individual taxpayers and were effective for Tax Year 2001.
    - 2. Reviewed the Joint Committee on Taxation's Lists of Expired and Expiring Federal Tax Provisions for tax laws that expired in 2001.<sup>3</sup>
    - 3. Monitored several IRS, Congressional, and Internet web sites to identify proposed tax legislation. For example: IRweb Tax Notes Today, CCH Tax News at <http://tax.cchgroup.com/news/>, Thomas - Legislative Information at <http://thomas.loc.gov/>, Joint Committee on Taxation at <http://www.house.gov/jct/>, Senate Finance Committee at <http://www.senate.gov/~finance/>, and House Ways and Means Committee at [http://www.house.gov/ways\\_means/](http://www.house.gov/ways_means/).
  - B. Evaluated the status of programming changes for tax law changes identified in step II.A. to computer systems that process individual returns. For example, we:
    - 1. Reviewed 5 Requests for Information Services (RISs) and 4 amendments to those RISs (not a sample) for programming changes needed as a result of tax law changes that affect Individual Income Tax returns for Tax Year 2001, and interviewed W&I SP and Information Technology Services (ITS) officials regarding the status of the RISs.

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<sup>1</sup> Source: Joint Committee on Taxation, Summary of Provisions Contained in the Conference Agreement for H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001, JCX-50-01 (May 26, 2001).

<sup>2</sup> Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of 5 U.S.C., 19 U.S.C., 26 U.S.C., 29 U.S.C., 31 U.S.C., 42 U.S.C., and 46 U.S.C. app.).

<sup>3</sup> Sources: Joint Committee on Taxation, List of Expired and Expiring Federal Tax Provisions, 1998-2008 (JCX-1-99), January 20, 1999; and Joint Committee on Taxation, List of Expired and Expiring Federal Tax Provisions, 2001-2010 (JCX-56-01), June 25, 2001.

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2. Monitored IRS ITS reports<sup>4</sup> from August 2001 through December 2001 that show the statuses of the RISs and amendments and changes to computer systems that process Individual Income Tax returns.
- III. To determine if the W&I SP organization had taken appropriate steps to address Internal Revenue Manual (IRM), training, and staffing issues that could affect the processing of W&I taxpayers' returns during the 2002 Filing Season, we:

### IRMs

- A. Interviewed the W&I SP IRM Coordinator and examined document *SP 2001 IRM Status Report* to determine whether the W&I SP organization identified all SP IRMs and the key\* IRMs that required revision for the 2002 Filing Season (\*key IRMs might include legislation, Integrated Submission and Remittance Processing, and transshipping returns).
- B. Interviewed the W&I SP IRM Coordinator and a W&I SP IRM author to identify the process of revising IRMs.
- C. Contacted W&I SP management in the Austin, Atlanta, Fresno, and Kansas City SPCs and examined the *SP 2001 IRM Status Report* to determine the status of the revisions (content) for IRMs identified in step III.A.
- D. Monitored W&I SP Part 3 IRM production reports between October 2001 and January 2002 and reviewed the SP IRM status reports and SP Part 3 IRM schedule reports to determine the status of the production schedule for IRMs identified in step III.A.
- E. Contacted W&I SP management in the Austin, Atlanta, Fresno, and Kansas City SPCs to determine whether they had received the IRMs identified in step III.A. from the publishers.
- F. Contacted W&I SP management in the Fresno and Kansas City SPCs to identify how they intended to communicate IRM changes to W&I SP employees in time for the 2002 Filing Season.

### Training

- G. Interviewed W&I Learning and Education officials to identify the process of including IRM revisions in the filing season training for W&I SP employees; interviewed Training Coordinators (for Atlanta, Austin, and Kansas City SPCs) to determine whether the filing season training for W&I SP employees included

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<sup>4</sup> Sources: Filing Season 2002 Universe – All Statuses Report (this report lists all of the RISs, descriptions, requested and scheduled operational dates, and current statuses). Filing Season 2002 Summary Assessment Report (this report provides an overall assessment for each project area). Systems Acceptability Testing (SAT) Project List (this report lists all of the projects and shows their planned and actual dates for SAT, whether testing was completed by production start, and whether the projects are fit to start).

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changes to the IRMs; and reviewed the filing season training schedules found in the FSR packages for Atlanta, Austin, and Fresno SPCs to determine the training time frames.

### Staffing

- H. Interviewed the Work Schedulers on the Planning and Analysis staffs at the Austin, Atlanta, Fresno, and Philadelphia SPCs and contacted personnel in the Resources and Recruitment Sections of the W&I SP Headquarters Office to gain an overall understanding of the staffing cycle.
  - I. Secured the *2002 January to June Work Schedule Guidelines* including Calendar Year 2002 projected U.S. Individual Income Tax Return (Form 1040) volumes; reviewed the Receipt and Control (R&C) Workload Schedule Review for the Atlanta, Austin, Fresno, and Philadelphia SPCs; and interviewed the R&C Branch Chiefs for the four SPCs to determine how they arrived at the staffing numbers shown in their respective FSR packages.
  - J. Reviewed the FSR packages for the R&C Branch, the instructions for completing the three staffing templates in the FSR package, and recruitment data from the Consolidated Accession Request System for each of the eight W&I SPCs to compare the staffing needs shown in their FSR packages against actual new hire requests and to resolve discrepancies.
- IV. To determine if the IRS had implemented the recommendations to filing season readiness and processing of W&I taxpayers' returns reported in recent Treasury Inspector General for Tax Administration (TIGTA) reviews, we:
- A. Obtained the final report *The Internal Revenue Service's Planning Process Needs Improving to Fully Resolve All Issues Affecting Tax Return Processing Activities* (Reference Number 2000-40-054, dated March 2000) and the IRS management response to identify whether the IRS had developed written guidelines for the readiness planning processes as recommended in the report.
  - B. Obtained the final report *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season* (Reference Number 2001-40-192, dated September 2001), IRS management's response, and a RIS report to determine whether the IRS had taken any actions on the recommendations included in the TIGTA report.

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**Appendix II**

**Major Contributors to This Report**

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner, Wage and Investment Division W  
Chief, Information Technology Services M:I  
Director, Customer Account Services W:CAS  
Director, Submission Processing W:CAS:SP  
Director, Strategy and Finance W:S  
Director, Systems Development M:I:SD  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:F:M  
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**Appendix IV**

**Overview of the Internal Revenue Service's  
Filing Season Readiness Executive Steering Committee<sup>1</sup>**

Purpose of the Committee

The purpose of the Filing Season Readiness (FSR) Executive Steering Committee (ESC) is to provide additional assurance to the Division Commissioners of Wage and Investment (W&I), Small Business/Self-Employed (SB/SE), Large/Mid-Sized Business (LMSB), and Tax Exempt and Government Entities (TE/GE)<sup>2</sup> that the IRS operational functions are in a state of readiness for the upcoming filing season. To the extent that the Committee surfaces barriers to operational readiness or barriers to a successful filing season that are not being properly addressed, it is required to elevate the issue to the appropriate level, including the responsible Division Commissioner if necessary. The Committee will not supplant line management responsibility for operational readiness.

Structure and Members

The Committee operates under the direction of the Division Commissioner, W&I, and includes three co-chairs who are appointed by the Division Commissioners, W&I and SB/SE. The co-chairs will generally serve on the Committee for 2 years with some of the co-chairs remaining from 1 year to the next to ensure continuity.

In addition to the co-chairs, the Committee consists of standing organizational representatives from the following organizations that are critical to a filing season:

- Information Technology Services (formerly Information Systems)
- Chief Counsel
- Legislative Affairs
- Electronic Tax Administration
- Communications and Liaison

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<sup>1</sup> *Source:* Internal Revenue Service (IRS) Filing Season Readiness Executive Steering Committee Charter (Version 2.3, updated 2/1/2001).

<sup>2</sup> These are the four IRS Operating Divisions that provide service to taxpayers. W&I serves individual taxpayers, who file approximately 94 million returns; SB/SE serves approximately 7 million small businesses, including corporations and partnerships with assets of \$5 million or less, and approximately 33 million self-employed and supplemental income earners; LMSB serves approximately 210,000 corporations and partnerships with assets over \$5 million; and TE/GE serves over 3 million entities that generally pay no income tax but pay more than \$220 billion in employment tax and income tax withholding.

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- Compliance – W&I
- Compliance – SB/SE
- Customer Assistance, Relationships, and Education – W&I
- Taxpayer Education and Communication – SB/SE
- Customer Account Services (CAS) – W&I
- CAS – SB/SE

In addition, any senior IRS executive might name an executive or manager to consistently attend the FSR ESC meetings and represent his or her function.

### Roles and Responsibilities

The Division Commissioners and their line organizations are responsible for preparing and executing plans for the filing season. For example, the Director, CAS – W&I, is required to properly plan and execute the filing season within his function. To the extent the Director requires detailed work schedules, training plans, and hiring plans to prepare for the filing season, it is the Director's responsibility to obtain them from subordinates. The Director will determine the detail, format, and acceptability of those plans and how they will be monitored through execution.

FSR ESC co-chairs are responsible for the plans and actions of the Committee. The Committee provides additional assurance to the Division Commissioners that the line organizations are in a state of readiness for the filing season. While the operations of the LMSB and TE/GE Divisions do not normally have a direct impact on filing season delivery, the Committee will advise their respective Division Commissioners of any pertinent issues requiring action by their organizations.

Standing organizational representatives are responsible for preparing and updating portions of the FSR ESC action plan, briefing the Committee, following up on issues, and ensuring that coordination takes place throughout organizational units. They should be decision-makers and should consistently attend the Committee meetings.

The Committee reviews filing season readiness through periodic meetings with the standing organizational representatives and senior IRS executives and managers and through the solicitation of issues and concerns from stakeholders. In addition, the Committee requires executives and managers to provide ad hoc status reports on issues or update the FSR ESC action plan. The Committee also verifies that each issue is being addressed by an accountable function or line organization and that key stakeholders are involved. Where necessary, the Committee assists in establishing ownership of a given issue. The Committee requires line organizations to certify that they have addressed certain issues, portions of the Committee's action plan, or the entire action plan.

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To summarize, the Committee will:

- Prepare an action plan that addresses areas of concern for the filing season.
- Solicit stakeholder issues and concern about readiness.
- Hold periodic meetings with senior IRS executives and managers to discuss significant barriers to a successful filing season.
- Establish functional or line accountability for all identified issues.
- Validate cross-functional coordination based on feedback from stakeholders.
- Distribute minutes, emails, or voice mail to communicate progress service-wide.
- Require certification of readiness from key organizations.

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**Appendix V**

**Overview of Tax Law Changes That Affect Individual  
Income Tax Returns for Tax Year 2001**

**Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)<sup>1</sup>**

New 10 Percent Rate Bracket – Effective for taxable years after December 31, 2000, a new 10 percent income tax bracket was created for a portion of taxable income that is currently taxed at 15 percent. The bracket applies to the first \$6,000 of taxable income for single, \$10,000 for head of household, and \$12,000 for married filing jointly taxpayers. For Tax Year (TY) 2001, the new 10 percent rate bracket will be delivered through a rate reduction credit (discussed below).

Reduction in Individual Income Tax Rates – For TY 2001, the marginal income tax rates for individuals will be reduced to 27 percent, 30 percent, 35 percent, and 38.6 percent. However, since the effective date of the reduction was not until after June 30, 2001, the actual annualized rates are 27.5, 30.5, 35.5, and 39.1 percent. The taxable income levels for the new rates will be the same as the current taxable income levels.

Rate Reduction Credit for 2001 – To provide immediate benefit of a new 10 percent rate bracket, a credit (new Internal Revenue Code (I.R.C.) § 6428) of 5 percent will be given in lieu of the 10 percent rate bracket for 2001. The credit will be based on income shown on tax returns filed for TY 2000 (instead of 2001). In general, checks will be issued in the amount of \$300 for single, \$500 for head of household, or \$600 for married filing jointly taxpayers who timely filed their 2000 tax returns. Taxpayers will compute their actual 2001 credit on a worksheet provided with their 2001 tax return. The check they receive will be subtracted and any remaining credit will be claimed on their 2001 tax returns. Taxpayers whose checks exceed their credit (e.g., because they paid tax in 2000 but owed no tax for 2001) will not be required to repay the excess.

Increase and Expand the Child Tax Credit – Modifications to the child tax credit, effective for taxable years beginning after December 31, 2000 are:

- The credit (currently \$500 per qualifying child) is increased to \$600 per child in 2001-2004.
- The credit is made refundable to the extent of 10 percent of earned income in excess of \$10,000.

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<sup>1</sup> Source: Joint Committee on Taxation, Summary of Provisions Contained in the Conference Agreement for H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001, JCX-50-01 (May 26, 2001).

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- The reduction in the credit by alternative minimum tax (AMT) is repealed.
- The current rule (which expires at the end of 2001) allowing the credit to offset the full amount of the taxpayer's regular tax and AMT is made permanent.

**Increase in Alternative Minimum Tax Exemption** – For tax years beginning in 2001-2006, the AMT exemption amount is increased by \$4,000 in the case of a joint return or a surviving spouse (i.e., from \$45,000 to \$49,000) and by \$2,000 in the case of an individual who is not married and not a surviving spouse (i.e., from \$33,750 to \$35,750).

**Expansion of Authority to Postpone Certain Tax-Related Deadlines by Reason of Presidentially Declared Disaster** – Under current law, the Secretary of the Treasury can postpone for 90 days certain tax-related deadlines for taxpayers affected by a Presidentially declared disaster. The Act extends this time period to 120 days.

**No Federal Income Tax on Restitution Received by Victims of the Nazi Regime or Their Heirs or Estates** – Under the Act, excludable restitution payments and excludable interest (as defined in the Act) shall not be included in gross income and shall not be taken into account for purposes of applying any provision of the Code that takes into account excludable gross income in computing adjusted gross income. The basis of any property received shall be the fair market value of the property at the time of receipt. This section applies to any amount received on or after January 1, 2000.

### **Taxpayer Relief Act of 1997 (TRA 97)<sup>2</sup>**

Section 311 “Maximum Capital Gains Rates for Individuals” of the TRA 97 amends I.R.C. § 1(h)(2)(b) for tax years beginning after December 30, 2000. This amendment lowers the capital gains rate for individuals from 20 to 18 percent (10 to 8 percent for individuals in the 15 percent tax bracket) if the individual held the asset more than 5 years. For TY 2001, this provision will only apply to individuals in the 15 percent bracket. Under the TRA 97, the date that the 5-year holding period starts is different for individuals in the 15 percent bracket than for those in higher brackets. If the individual is in a tax bracket that is higher than 15 percent, the 5-year holding period applies to assets acquired after December 30, 2000. If the individual is in the 15 percent tax bracket, the asset does not have to be acquired after December 30, 2000, in order to have the 5-year period begin.

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<sup>2</sup> Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of 5 U.S.C., 19 U.S.C., 26 U.S.C., 29 U.S.C., 31 U.S.C., 42 U.S.C., and 46 U.S.C. app.).

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**Appendix VI**

**Overview of How the Internal Revenue Service Determines  
Processing Centers' Staffing Needs for the Filing Season**

The Work Plan

The Internal Revenue Service has a method for combining the expertise of field operations management and analysts located in the return processing centers with that of analysts located in the Washington, D.C., Headquarters (HQ) Offices into a plan of action based on past performance data<sup>1</sup> and governed by factors that will influence the course of the individual centers in a specific fiscal year. The plan of action provided by this system is known as the Work Plan. The Work Plan originates with computer-generated performance data which are updated by HQ personnel and forwarded to the processing centers in April or May. Adapting it to their specific needs, the centers use this information to complete their Work Plans by the end of June. HQ reviews the Work Plans and presents changes (for example, a reduction in hours due to budget constraints) to the plans in the form of a counter proposal to the processing centers by the end of July. All the Work Plans then undergo a final review process in August involving both the processing centers and HQ. Final Work Plans should be approved by mid-September. All changes made to the Work Plan, as well as the supporting narrative statements, are maintained on a database known as the Program for Automated Work Plan System.

The Work Plan Timeline

The development of a Work Plan for a center's filing season staffing needs begins in late February of the year preceding the filing season.

- Feb. & Mar. - Factors that will influence the production of the individual centers in a specific fiscal year—known as “planning assumptions”—are developed at HQ.
- April - HQ sends past performance data and planning assumptions to the processing centers for development of the Work Plan.
- June - The processing centers complete their Work Plans and send them to HQ for review.
- July - HQ presents changes to the centers' Work Plans.
- August - The Work Plans undergo a final review prior to approval.

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<sup>1</sup> Past performance here represents the historical volumes actually processed in addition to the number of staff and the hours needed to process those volumes.

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### The Work Schedule

In September, HQ analysts predict the volume of returns each processing center is expected to receive the following year. In October, HQ sends each processing center the perfected return projections along with any other changes to the planning assumptions. The centers combine the past performance data from the approved Work Plans, the latest return projections, and the latest planning assumptions pertinent to their center to develop and produce the Service Center Workload Schedule Review (also known as the Work Schedule) for the January to June 2002 Filing Season. This Work Schedule displays the total hours, volume, and production rates scheduled for the January to June 2002 period along with Work Plan and prior year actual data for each program area within the processing center. It also displays the difference between Work Schedule and Work Plan data as well as Work Schedule and actual hours, volume, and production rate.

Work Schedule data are maintained and monitored on a database known as the System for Automated Work Schedules. This system allows the user to allocate the January to June 2002 total scheduled hours and volumes for a given department among the program areas within the department or to break them down into weekly and daily totals. Processing center analysts use this information to assist management in determining how many full-time, part-time, permanent, seasonal, and temporary employees they will need for each day or week of the filing season.



**Overview of Precautions the Internal Revenue Service  
Has Taken to Protect Against Biological Attacks**

As a result of the September 11, 2001, terrorist attacks and the subsequent anthrax attacks on news media and Congressional Offices, the Internal Revenue Service (IRS) has taken additional precautions to ensure that Submission Processing Center mailrooms are prepared for the threat of potential biological attacks.

The IRS initiated the Campus Security Readiness Work Group to provide concentrated executive attention on campus security preparations associated with mail receipt and handling for the filing season. The work group developed an action plan that outlines the key issues and actions necessary to ensure mailrooms are prepared for the threat of potential biological attacks. The following are examples of actions the IRS has taken to protect campus mailrooms:

- Testing for biological agents.
- Redesigning and/or relocating of some functional areas.
- Training mailroom employees on how to identify and react to mail with suspicious characteristics.
- Providing mailroom employees with protective equipment.
- Establishing emergency procedures for responding to potential contamination incidents.
- Issuing communications to employees on anthrax and mail safety.
- Changing mail-handling procedures.

The IRS has established recovery plans for reacting to biological incidents. To test these plans, the IRS has conducted exercises that included mock biological contamination incidents.